CONGRESSIONAL BUDGET OFFICE
PAY-AS-YOU-GO ESTIMATE

July 29, 1998

S. 318
Homeowners Protection Act of 1998

As cleared by the Congress on July 16, 1998

SUMMARY

S. 318 would make a number of changes affecting the private mortgage insurance industry, including canceling any requirement for private mortgage insurance when a borrower's equity in a home reaches 22 percent of the value of the home and the borrower's payments are current. It also would provide an exception to certain provisions of the Higher Education Act of 1965 for nonprofit institutions that have the primary function of providing educational services related to health care issues. This change would affect the access of students to Federal Family Education Loans (FFELs). Finally, the act would dissolve the Thrift Depositor Protection Oversight Board, transfer its remaining responsibilities to the Department of the Treasury, and reduce from four to two the number of annual meetings the Affordable Housing Advisory Board must hold each year. CBO estimates that enacting S. 318 would increase the annual subsidy cost for FFELs, thereby increasing direct spending by $2 million in 1998 and in 1999. This cost would partly be offset by reducing outlays from the Oversight Board, saving about $250,000 a year.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated impact of S. 318 on direct spending is shown in the following table. The budgetary impact of this legislation falls within budget functions 370 (commerce and housing credit) and 500 (education). For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars										
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Changes in outlays	2	2	0	0	0	0	0	0	0	0	0
Changes in receipts	Not applicable										

BASIS OF ESTIMATE

Implementing S. 318 would affect direct spending because it would extend federal loans to certain students that would not be eligible for such loans under current law. CBO estimates that this action would result in a net increase in outlays of about $2 million in each of the fiscal years 1998 and 1999. Further, we estimate that S. 318 would reduce direct spending by about $250,000 annually by eliminating the Thrift Depositor Protection Oversight Board.

Federal Family Education Loans

Section 12 would allow students attending certain institutions of higher education to continue to have access to Federal Family Education Loans even if the institution is a party in a bankruptcy filing. The exemption would only apply to an institution that has the primary function of providing health care educational services and that enters into a bankruptcy proceeding after June 30, 1998, and before January 1, 1999.

One institution has been identified as the likely beneficiary of this provision. Allegheny Health, Education and Research Foundation (AHERF), which controls the Medical College of Pennsylvania and Hahnemann University, filed for bankruptcy protection on July 20, 1998. According to information provided by AHERF's chief executive officer, the school receives the disbursements of about $44 million in federal loans, about three-quarters of which are FFELs. Without this provision, students at this school would not be eligible for FFELs. As a result, CBO estimates that $33 million in FFELs would not have to be provided in fiscal year 1998 because students would not be able to transfer to other institutions in time for the fall 1998 semester. In 1999, CBO estimates that about $25 million in FFELs would be affected, assuming that one-quarter of the students would be able to obtain placements in other schools. Although the default risk for loans to students attending this type of institution is low, other subsidies on these loans—such as for in-school interest on subsidized FFELs—entail federal costs. CBO estimates that the subsidy costs of such loans is about 6 percent of the principal. Consequently, CBO estimates that the federal costs of this provision are $2 million in both 1998 and 1999.

Banking-Related Provisions

Current law requires the Thrift Depositor Protection Oversight Board to monitor the operations and spending of the Resolution Trust Corporation (RTC). The RTC was a temporary agency established to resolve thrift failures beginning in 1989. In late 1995 the RTC was dissolved and its remaining assets were transferred to the Federal Deposit Insurance Corporation. The Oversight Board now retains responsibility for only two functions. The first is to oversee operations of the Resolution Funding Corporation, which issued bonds totaling $30 billion from 1989 to 1991 as part of RTC's initial funding. Second, the Oversight Board retains a nonvoting membership, through the end of 1998, on the Affordable Housing Advisory Board. By terminating the Oversight Board, S. 318 would eliminate the annual costs for the one employee of the board who prepares periodic reports required of all distinct entities of the government and performs other routine functions. Based on information from the Treasury, CBO estimates that transferring the statutory responsibilities of the Oversight Board to the Treasury would result in savings of about $250,000 annually in direct spending. Because the Oversight Board has the authority to pay its expenses without appropriation action, these savings would be a reduction in direct spending.

S. 318 also would affect insured depository institutions, including banks, thrifts, and credit unions that hold qualifying mortgage portfolios. As a result, the federal banking regulators—the Federal Reserve, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the National Credit Union Administration, and the Office of Thrift Supervision—would have some responsibility to monitor and enforce the statute. Spending by these agencies is not subject to the annual appropriation process. However, CBO expects that the additional regulatory costs for these agencies would be small and offset by fees in most cases, resulting in no significant net cost to the federal government.

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